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Country programme outline for the Russian Federation (2004-2007)

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I. Situation analysis

1. The Russian Federation continues to reap the benefits of increasing economic and political stability, with economic recovery continuing over several consecutive years. Reforms have gathered pace, underpinned by a government plan designed to tackle a number of hitherto elusive structural impediments, including the tax system, the banking sector, public service and land ownership (recent legislation allowing private ownership of agricultural land has set the stage for extensive restructuring). The Government has made use of recent budget surpluses to begin retiring public debt ahead of schedule. There have recently been consistent grain surpluses in the country for the first time in decades. In many ways, the economic and political landscape today presents a more optimistic picture for sustainable development than that of even a few years ago.

2. Nonetheless, the Russian Federation faces a number of serious challenges in translating current economic and political advances into long-term prosperity within a rules-based, open market economy and democratic society. Highly concentrated both sectorally and regionally, economic growth remains fragile, and owes much to high international oil prices and favourable prices for other basic export commodities. Small and medium-size enterprises (SMEs) continue to stagnate in a regulatory environment featuring excessive transaction costs. Foreign and national direct investment remains low and capital flight continues due to the same business climate and uncertain property rights. The conversion of the highly specific asset base inherited from the Soviet economy is far from being completed and faces serious challenges.

3. After more than a decade of transition, conditions for human development lag behind recent macroeconomic growth. Though slightly improved in recent years, the 2000 human development index (HDI) at 0.781 remains far below the pre-transition level of 0.824 (1990) and fell in world rankings, from 55 in 2001 to 60 in 2002. Further, human development and income levels in the Russian Federation show extreme regional variations. Generally, the scale of income differentiation has far exceeded what could be justified by a systemic logic of market reforms, as observed in some more successful transition countries. The average gross domestic product (GDP) per capita level in the country and the recent pace of economic growth cannot explain such considerable areas of poverty as observed in many regions and social groups. Conflict in the Northern Caucasus continues to jeopardize human rights and development in the region. Communities in the Chernobyl region remain adversely affected by ecological conditions. Asymmetric economic growth has begun to have a positive impact on poverty for some, but broad-based, pro-poor growth remains elusive while inequality across a number of dimensions continues to rise. Though a positive development on balance, the continued opening of the Russian Federation and anticipated accession to the World Trade Organization pose further concerns for less competitive socio-economic sectors and regions. This will likely require measures for temporary mitigation. As they are for the most part not reformed in accordance with the realities of the transition, public service provision and social safety nets remain inadequate. High mortality rates, poor health levels, and growing HIV/AIDS and tuberculosis epidemics are among factors increasingly undermining the country's human capital, already set for long-term population decline in the face of low birth rates.

4. A review of the Russian Federation's progress in the achievement of the Millennium Development Goals (MDGs) demonstrates the wide divergence of conditions created under transition. While some targets and indicators, such as literacy rates and school enrolment, were achieved well before the baseline year 1990, the country has experienced minimal progress and even decline in a number of areas, including poverty and health measures. Poor past and current environmental management remains a critical concern in the face of increasingly liberalized markets and reduced state presence.

5. In a period of rapidly evolving relations between the central and regional and local government structures, balancing capacity with changing roles and responsibilities at each level is important. The State Duma, Federation Council and central Government have passed a number of major legislative reforms, largely promoting a liberal agenda aimed at supporting the nascent market economy. Effective implementation of reforms, however, remains a significant challenge. The current guiding government strategy, the Medium-Term Programme of Social and Economic Development of the Russian Federation for 2002-2004/5 seeks renewed balance, emphasizing development of the social sphere, with economic growth a necessary, but not sufficient, condition. The

programme highlights a number of specific objectives, including, among others, public administration reform, judicial reform, harmonization of federal, regional and local legal frameworks, reform of the energy sector, corporate governance, reform of the banking and capital markets, enabling environment for real sector investment, rationalizing tax collection and fiscal efficiency and reducing regional disparity.

II. Past cooperation and lessons learned

6. The development of the country programme outline (CPO) for 2004-2007 has benefited significantly from experiences gained over the two previous country cooperation frameworks (CCFs) for the periods 1998-2000 and 2001-2003. The strategic directions comprising this programme have been developed in close collaboration with government counterparts. The second CCF (2001-2003) established cooperation with the Government of the Russian Federation along two broad lines: governance for human development; and sustainable growth for human development. The period 2001-2003 witnessed significant changes in the UNDP programme in the Russian Federation. The country office increased its focus on quality outputs, began more carefully assessing potential partners, and sought more sustainable sources of funding. A resource mobilization strategy was developed and the scope of the CCF rationalized. The country office implemented the recommendations of a comprehensive audit (2001) and a re-profiling exercise (2002). The resulting changes in office structure and management practices have positioned the office to execute effectively the new UNDP business model set out in the Administrator's business plan.

7. The country annual programme review of 2001 recommended that future UNDP cooperation in the area of socio-economic development be targeted at expanding cooperation with regional authorities, while seeking greater resource mobilization jointly with respective government institutions involved in the formulation and implementation of projects.

8. The country office continues to operate in an environment where it must have an impact in a vast and complex country with limited core resources. This requires considerable strategic focus to leverage impact across activities, while maintaining sufficient flexibility to respond to unforeseen resource mobilization and programmatic opportunities. Responsiveness is especially important given UNDP's successful track record and continuing efforts to partner with the Russian business sector, the need for which will undoubtedly remain strong throughout this country programme. The strategic use of regional and local-level pilot projects and the dissemination of value-added methodologies can have an impact.

III. Proposed programme

9. The introduction of the CPO seeks to ensure greater strategic focus through the integration of the results-based management framework in a simplified logical format. The strategies outlined below align UNDP programmatic investment in the Russian Federation with country office comparative advantages, the United Nations Country Team Strategy Document, and national commitments made within the framework of the Millennium Declaration. It is stressed that to effectively promote human development, the country programme must prioritize the facilitation of national goals and aspirations with the appropriate mix of policy advice, development services, and financial and human resources.

10. The 2004-2007 country programme will centre on the following four programmatic themes:

- Economic growth and poverty reduction
- Environmental sustainability
- Effective and accountable governance
- Social protection and civil rights.

11. The country office will support several key strategic cross-cutting thrusts across these thematic areas for maximum impact and relevance to the Russian context:

- Mitigating social and economic equality
- Integrated regional and local development
- Information and communications technology.

12. UNDP brings the experience and sectoral expertise of a global development network, combined with demonstrated results in building multisectoral partnerships at the regional and local levels. The UNDP comparative advantage in the Russian

Federation is defined by the strategic intersection of these two dimensions: bringing global expertise to specific development challenges at the ground level.

13. UNDP will position its programmatic efforts to mitigate social and economic inequality as the paramount challenge to the Russian Federation's sustainable human development. This will be achieved by maximizing the positive reinforcement between national-level policy advice and public dialogue on the one hand, and demand-led, integrated development at the regional and local levels on the other. This approach envisages the development of growth-generating interventions that will be expanded selectively, based on area-specific needs. Information and communications technology (ICT) will play an important role in capacity-building for targeted regional and local institutions. These programmatic themes and cross-cutting thrusts are integrated into the UNDP corporate results-based management framework through linkages with the Strategic Areas of Support (see annex). UNDP will further strengthen its coordination support to the United Nation system, including promotion and monitoring of joint United Nations and government efforts to achieve the MDGs and support through the Resident Coordinator mechanism. The following sections elaborate this strategy over the medium term.

Economic growth and poverty reduction

14. As emphasized in the United Nations common country assessment (CCA), poverty reduction in the Russian context is highly sensitive to economic growth. This programme seeks to reinforce the linkages, between sustainable growth and poverty reduction. It will be achieved by facilitating the reform process and improvements in the efficiency of nascent economic structures and institutions. This includes enhancing public sector efficiency and transparency and supporting the role of the private sector to generate pro-poor growth.

15. The programme will seek to address critical public sector issues, such as fiscal responsibility, financial accountability, transparency of fiscal policy and the rule of law. Improving the general business climate through better definition of property rights, strengthening non-governmental and judicial systems and support to competitive processes are required to encourage private investment.

16. The following strategies are proposed:

(a) Growth and employment generation through the support of small and medium-size enterprises (SMEs). Development of this sector is a necessary condition for sustainable economic growth, successful restructuring of the Russian economy and moderating the social costs of transition. This includes: (i) improving the regulatory environment of SMEs, particularly at the regional and local levels; (ii) improving regional and local institutional capacity to create an enabling environment for SMEs; (iii) facilitating SME access to sources of finance, including developing micro-lending and leasing schemes, particularly in agriculture;

(b) Supporting government efforts to attract foreign and national direct investment, primarily at the regional and municipal levels, including special emphasis on integrated regional and local development strategies comprising gender and environmental components. UNDP's efforts will focus on revealing unclear and conflicting laws, reduction of administrative barriers to investment and business activity, better protection of industrial and intellectual property rights, and promoting fair competition through judicial reform. That would allow the Russian economy to benefit fully from the newest technologies and know-how, and become an active player in the global research and development market;

(c) Promotion and monitoring of the national campaign for the MDGs. UNDP will support national mechanisms to "domesticate" and integrate the MDGs into development planning frameworks, both directly and as principal coordinator and facilitator of joint United Nations-system efforts. This will include the promotion of broad-based dialogue and advocacy for national ownership;

(d) Promotion of the Global Compact principles, within the specific transition environment of the Russian Federation, to enhance the role of the corporate social responsibility and public-private partnership. This will become increasingly relevant as the private sector becomes a more advanced and vibrant force for poverty reduction in the country;

(e) Raising public awareness of public sector management, transparency and financial accountability issues. UNDP, in cooperation with other donors, will

initiate public dialogue through seminars, conferences, and publications (e.g., practical guides);

(f) Initiating and supporting national dialogue on how best to deal with poverty and growing inequalities. Efforts will focus on strengthening the partnership between local and central governments, non-governmental organizations (NGOs), and representatives of the private sector. Attention will also be paid to the monitoring of poverty alleviation (e.g., monitor human development, estimate HDIs across regions, and provide analyses for decision makers);

(g) Contributing to institutional and economic recovery in the Northern Caucasus through participatory local development and management support for infrastructural rehabilitation processes. When conditions are appropriate, the UNDP contribution can include, inter alia, support for the development of a Human Development Report on the region, for the establishment of small-scale vocational training and employment programmes, and the establishment of an SME-friendly environment in the region.

Environmental sustainability

17. The country office will continue implementation of projects and programmes launched in the previous cycle in the fields of sound environmental management, biodiversity conservation, sustainable energy and climate-change mitigation. While retaining a focus on developing conservation initiatives in the priority regions and territories with high biodiversity value, the country office will work more closely with the central Government to ensure wide replication of the pilot experiences and public awareness of global environmental challenges. The following strategies are proposed:

(a) Biodiversity conservation in Kamchatka, the Altay-Sayan ecoregion, Taimyr and Eastern Siberia, piloting various approaches for the ecosystem, species conservation and agrobiodiversity;

(b) Further work on energy efficiency in the north-west and other regions in order to explore financial, economic and public awareness tools as instruments for promoting sustainable energy and conservation behaviour;

(c) Extension of the climate change programme, with the promotion of low-emission technologies, and facilitating investments in jointly implemented greenhouse gas (GHG) emission-reduction programmes;

(d) Positive lessons and practices from the Local Agenda 21 project implemented in Altay will be strengthened and replicated through a series of new community development initiatives with indigenous peoples in Kamchatka and Krasnoyarsk Kray, focusing on democratic governance, sustainable livelihoods and traditional land us;

(e) Under the umbrella of the MDGs, build broad public awareness of the critical importance the country's environmental sustainability plays at the local, national and global levels. This includes emphasizing the relationships between the environment, natural resource consumption and economic and social dynamics. This could include a range of tools, from introducing environmental curricula in the education system to promoting public-private dialogue.

18. In addition, the country office will continue consultations with the Ministry of Natural Resources and the Ministry of Economic Development and Trade on the new priority areas for UNDP support. These areas could potentially include implementation of the Stockholm Convention on Persistent Organic Pollutants; consultations and implementation support in promoting the Russian Federation's role in the international market for global environmental services; designing innovative and sustainable financial mechanisms for biodiversity conservation and energy efficiency, including the promotion of public-private partnerships.

Effective and accountable governance

19. This will address key challenges facing effective, accountable governance in the transition process by means of local capacity-building and targeted policy-advice activities. The programme will seek to build and strengthen institutions needed for a market economy and democratic society, facilitate participatory and accountable governance, and decrease prohibitive private-sector transaction costs. The principal areas of focus will be administrative and judicial reform, improving transparency and accountability of public institutions, and the development of civil society. The

programme builds on the legislative progress made since the development of the previous CCF, while acknowledging the need for further support in legislating an enabling environment in a few critical areas. This programme further seeks to leverage the growing momentum for significant structural change in the area of local governance that provides the basis for enhanced responsiveness to community needs. The programme will draw on UNDP's access to international and national comparative experiences, as well as the Capacity 21 (2015) programme, to disseminate successful governance practices between the regions and municipalities of the Russian Federation. Increased public participation and monitoring and administrative management efficiency will be promoted via information technology applications. The following strategies are proposed:

(a) Supporting the harmonization of federal and regional legislation, as well as building the capacity of regional and local governments to implement the draft Law on Local Governance and the array of supporting legislation. The focus will be on building local-level civic participatory processes, transparency and accountability in the management of public resources, and enabling environments for SMEs;

(b) Support to the continuation of legal and judicial reform, both in terms of policy (material law) and institutional capacity, to improve the protection of intellectual property rights and contract enforcement (see also paras. 14-16 above);

(c) Improving the exchange of expert ideas and assessments, through Internet-based networks of research and training institutions at the regional/local levels, in the areas of local government and public administration reform (measures to reduce corruption, management mechanisms, performance management, etc.); supporting progressive inter-generation change in public administration by organizing training courses for young civil servants, study tours and capacity-building;

(d) Practical application of the National Human Development Reports and Human Development Indicators (HDIs) for enhanced social policy and monitoring its effectiveness, and targeting of social resources to those in greatest need at the regional and local levels;

(e) Improving the legislative environment and capacity of civil society as a growing force for poverty reduction and human development in the transition. This will include developing and institutionalizing the use of regular consultations between government (especially local and regional bodies) and civil society organizations to: (i) increase the openness of government agencies' and institutions' activities for public review, reducing obstacles to rapid and effective dissemination of public information via media and web-based communications; (ii) increase public participation in legislative decision-making through application of ICT tools (e.g., pilot schemes on web-based public hearings);

(f) Supporting strategies and building capacities to prevent the spread and mitigate the impact of HIV/AIDS on the human and economic potential of the Russian Federation. UNDP will use its convening power to promote broad-based advocacy and public dialogue, while supporting the United Nations-system response through coordination and joint strategy implementation.

Social protection and civil rights

20. Despite growing confidence in the economy and political stability, the protection of human and civil rights remains an area of considerable importance and concern for securing sustainable human development and upholding commitments enshrined in the Millennium Declaration. The following strategies are proposed:

(a) Consolidating progress made in the area of juvenile justice to support broader judicial reform, both in terms of policy and institutional capacity, for the protection of human and civil rights;

(b) Promoting an environment of tolerance and equity through the identification and reduction of various kinds of political, economic, gender and other social discrimination;

(c) Supporting the harmonization of social legislation, with possible development of a comprehensive social code adapted to the Russian context; this includes building the implementation capacity of partners to improve public access to social services.

IV. Programme management, monitoring and evaluation

21. National execution (NEX) is the main modality for UNDP management in Russia. In this respect, a streamlined project management structure headed by a National Project Director will be established for each project. Comprehensive participatory approaches for monitoring and evaluation will be established in partnership with the respective executing agencies of the projects. The UNDP results-based management framework will be systematically integrated across UNDP-supported programmes. Moreover, the country office will take full advantage of UNDP's Enterprise Resource Platform system, scheduled for 2004, in synthesizing all management and monitoring functions in a single, user-friendly environment.

22. Given the critical need for leveraging limited core funds, emphasis will be placed on consolidating existing partnerships and proactively seeking new opportunities. High priority will be given to enhancing alliances with the corporate sector and regional authorities. The partnership and resource mobilization strategy for the country programme will hinge on regular policy dialogue with UNDP's strategic partners.

Annex
Results and resources framework for the Russian Federation (2004-2007)

Objective 1. Governance: Economic growth and national, regional and global cooperation that widens development choices

Strategic areas of support	*Intended outcomes*	*Indicators of outcome or purpose*	*Outputs, including key output indicators, where needed*	*Resources by strategic area of support/outcome or programme area (thousands of US dollars)*
Policy, legal and regulatory reform to support private sector development	**Outcome 1.** Poverty reduction through sustainable and more equitable economic growth	- Number of quality, ethical public-private partnerships formed under the Global Compact framework - Number of SMEs (start-ups and spin-offs) - Existence of institutional structures to attract direct investment at the regional and local levels (development agencies, financial institutions, chambers of commerce)	- Seminars, workshops on ethical public-private partnerships and awareness of Global Compact socio-economic potential - Local institutional audit and policy recommendations in the framework of pilot projects - Capacity-building of local and regional development/investment agencies - Implementation of pilot projects, audit of local socio-economic potential - Training of municipality officials/personnel - ICT systems for transparent, efficient governance	**Regular resources:** *700* **Other resources:** *GCS* *2 000* *TPCS* *20 000* **Subtotal:** ***22 700***
Efficiency and accountability in the public service	**Outcome 2.** Enhanced effectiveness and accountability of governance structures for regional and local development	- Existence of policy and regulatory environments at the local level which foster SME growth - Existence of local administrative mechanisms (e.g., one-stop shops) for greater transparency and efficiency of public service provision		**Regular resources:** *500* **Other resources:** *GCS* *1 000* *TPCS* *2 000* *F/TF* *800* **Subtotal:** **4 300**

Objective 2. Environmental sustainability

Institutional framework for sustainable environmental management and energy development	**Outcome 3.** Improved environmental sustainability of development processes	- Increase in public awareness and knowledge of environmental priorities - Linkages between environmental conservation and local development established - Number of quality, ethical public-private partnerships targeting environment formed under the Global Compact framework	- Local development projects integrating environmental components - Awareness-raising and capacity-building in environmental issues - Workshops promoting public-private partnership in the environmental sphere - Production of disaggregated statistics	**Regular resources:** *500* **Other resources:** *GCS* *2 000* *TPCS* *5 000* *F/TF (GEF)* *12 600* **Subtotal:** **20 100**

Objective 3. Social protection and civil rights

Access to basic social services and systems for risk management	**Outcome 4.** Strengthened civil rights and social protection	- Number of civil society actors monitoring civil rights and social issues (NGO, CBO, etc.) - Relative growth in social sphere spending at the regional and local levels - Systems for enhanced targeting of social resources in place (e.g., HDI application) - Increased awareness of national authorities on gender equity issues	- Capacity-building of local institutions for developing and analysing disaggregated social indicators - Production and dissemination of National Human Development Reports - Application of HDI at the regional level	**Regular resources:** *300* **Other resources:** *GCS* *500* *TPCS* *1 000* *F/TF* *700* **Subtotal:** **2 500**
Comprehensive strategies to prevent the spread and mitigate the impact of HIV/AIDS	**Outcome 5.** Enhanced institutional capacity to mitigate the spread and impact of HIV/AIDS	-National HIV/AIDS coordinating mechanism in place (e.g., Inter-ministerial Committee) - Increase in resources (national and other) allocated to HIV/AIDS prevention and care	- Support to the establishment of an Inter-ministerial Committee - Joint comprehensive United Nations programming at the regional level - Capacity building of National AIDS Centre network at regional levels - Production and dissemination of awareness materials (e.g., practical guides)	**Regular resources:** *100* **Other resources:** *GCS* *500* *TPCS* *1 000* *F/TF* *800* **Subtotal:** **2 400**

Objective 4. Coherent and effective United Nations system

Coordination and collaboration on programming and administration through the Resident Coordinator System: country level	**Outcome 6.** Increased collaboration across the UN system to maximize development outcomes and progress towards the MDGs	- Government United Nations-system MDG coordinating mechanism in place - Joint United Nations advocacy monitoring activities (e.g., MDG Report, campaigns, etc.) - Joint United Nations MDG strategy mechanism in place (e.g., thematic working groups) - Increased common services cooperation among agencies (e.g., travel service, banking, office supply, green offices, etc.) - MDGs adapted to Russian context and broadly accepted	- Support to government MDG coordinating mechanism (training, seminars) - Activities (e.g., workshops, conferences) to build public awareness and adapt MDGs to Russian context - Leadership of United Nations MDG response mechanism - Production and dissemination of national MDG report	**Regular resources:** *0* **Other resources:** *RC budget* *440* *TPCS* *1 000* **Subtotal:** **1 440**

Totals: (in United States dollars)	**Regular resources:**	**2 077 712**
	Estimated carry-over:	**(193 000)**
	Other resources:	
	Government cost-sharing (GCS)	**6 000 000**
	Third-party cost-sharing (TPCS)	**30 000 000**
	Funds/Trust Funds (F/TF)	**14 900 000**
	Resident Coordinator (RC) budget	**440 000**
	TOTAL:	**53 224 712**